KEYNOTE INTERVIEW

How tech can create a middle office one-stop-shop

What fund administrators can do for managers has changed considerably in the last five years, with much higher expectations placed on their technology capabilities. Tim Houghton, head of debt and capital markets at Alter Domus, describes what administrators can now bring to the table

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Q How has the role of the fund administrator changed over time?

Long gone are the days when there were fund administrators, middle office providers and technology providers. Now, the role of the fund administrator has broadened to include more middle office functions and technology support. No longer are we doing just fund accounting and reporting; we're being asked to provide full-on middle office support including trade capture, trade settlement, portfolio reporting and portfolio covenant compliance metrics.

Technology has become a critical tool in the fund administrator's toolkit. If you look at some of the recent deals in the market, you see some of the big accounting software platforms being snapped up by asset servicing firms. This is creating a one-stop-shop opportunity for fund managers who, when selecting a fund administrator, can now have all the support for their middle office, back office, settlement, operations, reporting, reconciliations, and compliance delivered by a single provider. In this way, we're able to provide a lot more of the colour and detail that people making investment decisions rely on when deciding what to add to their portfolios.

Q What additional technology support are fund managers looking for from an administrator?

Fund managers in the past relied on their own asset management systems for tracking loans, bonds and so forth. Today, fund administrators are deploying all of those systems for them. Now it's a much more cloud-based experience, where the client can log in from virtually anywhere in the world and gain access to their reports and data.

Where there used to be three legs – the fund manager, the fund administrator and the technology provider – now there are two. Today, fund administrators are pushing forward solutions that help the entire investment process – even beginning as early as the fund marketing stage.

There's a certain level of middle office support that's inevitably required by fund managers. Their investment decision-makers and third-party administrators performing accounting work are all keeping records on which assets were purchased, at what prices, and for which funds. This middle office work is beginning to transition into the fund administrator's hands for several reasons but most notably because of technology. Administrators can leverage IT spends across a large universe of clients and deals. They absorb the cost of these systems, preventing the manager from needing to continuously invest in the latest technologies on their own.

Q Can administrators differentiate their offerings through technology?

Absolutely, but technology alone is not a differentiator. What differentiates administrators is their effective use of that technology. It's more a question of how they put the tech together and what it's able to do for the client, than which platforms they've invested in.

We're certainly not all using the same combination of tools; there are roughly half a dozen platforms that administrators are leveraging in each sub-sector. Sometimes they're layering two or three tools on top of each other and other times, they're investing in acquiring those platforms to build a differentiated experience that their competitors will have difficulty matching.

Where this comes together in particular is in the debt asset class. Loans are unlike other asset classes, with more variability in construction and terms than in other instruments, therefore requiring dedicated systems and teams. Some administrators try to extend their reach into the debt world and take on funds and do things manually for a time, expecting it to settle down as their portfolio grows. But actually, the opposite happens and what was a trickle becomes a stream. Without the platforms – and experience – to support it, they find themselves in a very tricky situation.

So not only does the administrator need to have the right tech tools at hand, they also need to deploy them effectively, demonstrate their commitment to ongoing investment in it, and have some flexibility in terms of adaptations and enhancements. What's music to a fund administrator's ears is having a neat technology platform that helps them be more efficient, so that managers can see their costs going down over time.

Q How are administrators expanding their services on the debt and capital markets side?

With the strong growth in direct lending funds, we're essentially seeing the advent of new commercial banking platforms without ATM machines. This creates a host of new demands for administrators, particularly with regard to credit servicing which, in itself, is already difficult work.

Banks have been able to rely on large back offices for this, whereas funds typically look to their administrator or expert third-party to handle it. What you find, though, is administrators want to offer these services, but there's far more to it than meets the eye. Loan servicing at scale requires significant investment in specialised systems for even basic administration and accounting.

A specific example of this is the number of administrators who have started offering administrative agency services to their direct lending clients. It is a key function for direct lending assets, and yet the expertise required is far more than many assume. Fortunately, we started an independent agency services group a decade ago and have the tools and experienced team to help with even the most complex challenges.

The other area where we see a lot of growth is in transparency tools such as web portals that provide visibility into the portfolio during the lifecycle of the loans. We have invested significant time and energy into developing web-based portals that showcase our workflows and portfolio data.

Web reporting and portal technology is now undoubtedly one of the next big things for fund administrators to tackle, a key example of how the administrator's choice of technology platforms can either enable or hinder their ability to provide value to their clients.

"Web reporting and portal technology is now undoubtedly one of the next big things for fund administrators to tackle. But it's less about which tech platform is being used, and more about how everything combines to create efficiency and provide insights"

Q What should managers look for when choosing an administrator?

It has always been about people, processes, technology and reputation. Each of these requires some level of scrutiny. On the people front, don't be assuaged by meeting the senior managers; get to know the people running the teams and some team members as well. Assessing bench strength, though more difficult to ascertain, is another area to evaluate.

When it comes to processes, you want to evaluate workflows, how information is delivered, and see some examples of the functionality. Not only should you do this for routine matters, but also for the less common matters like restructurings.

Understanding the technology requires seeing it in action; ask a provider to demonstrate what they can do. Ask them to show that they can be an agent, that they can be transparent, and that they can report in multiple formats using different delivery mechanisms.

Finally, it is always important to get references from other users to get some insight into whether others like working with the administrator. Inquire about their experience in normal times versus high-pressure situations. Administrators today can fulfil a much greater role for managers, so it's critical to invest the time in identifying the right partner at the outset. ■